

Message Text

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65-S-62

ACTION EUR-12

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E.O. 11652: N/A

TAGS: EAGR, EEC, ETRD

SUBJECT: EC CHEESE COUNTERVAILING DUTY PROBLEM

REF: A) STATE 92821 (NOTAL)

B) STATE 77388 (NOTAL)

1. SUMMARY: THE EC COMMISSION HAS DECIDED TO "TEMPORARILY SUSPEND" EXPORT SUBSIDIES ON ALL EMMENTHAL AND GRUYERE CHEESE EXPORTS TO THE US IN ORDER TO MEET THE US APRIL 5 POSITION. THE COMMISSION IS, HOWEVER, ACTING UNILATERALLY TO AVOID A "CONFRONTATION IN TRADE RELATIONS BETWEEN THE COMMUNITY AND THE US IN PRESENT WORLD CIRCUMSTANCES." SOAMES HAS GIVEN AMBASSADOR GREENWALD A LETTER CONFIRMING THE COMMISSION'S ACTION, REGRETTING CERTAIN US ATTITUDES, AND EXPRESSING CONCERN ABOUT US-EC RELATIONS. END SUMMARY.

2. AT OPENING OF BUSINESS APRIL 23 AMBASSADOR GREENWALD MET WITH EC COMMISSIONERS SOAMES AND GUNDELACH. PURSUANT TO REFTEL A HE INFORMED THEM OF ACTING TREASURY SECRETARY
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GARDNER'S WILLINGNESS TO SEND A LETTER TO SOAMES ON CERTAIN

ASPECTS OF THE COUNTERVAILING ISSUE IF THAT WOULD BE HELPFUL. THEY IMMEDIATELY WENT INTO THE FULL COMMISSION MEETING WHOSE AGENDA INCLUDED THE CHEESE COUNTERVAILING PROBLEM.

3. AT THE END OF THE DAY, AMBASSADOR GREENWALD AGAIN MET WITH SOAMES FOLLOWING A BRIEF TALK WITH GUNDELACH. SOAMES GAVE AMBASSADOR GREENWALD A LETTER (TEXT IN PARA 6 BELOW). SOAMES AND GUNDELACH BOTH SAID THAT, AS INDICATED IN THE LETTER, THE COMMISSION HAD RELUCTANTLY DECIDED -- AFTER A LONG, DIFFICULT DEBATE -- TO "TEMPORARILY SUSPEND" THE SUBSIDIES ON ALL EMMTHAL AND GRUYERE CHEESES, THUS MEETING THE US APRIL 5 POSITION (REFTEL B). HOWEVER, THE COMMISSION HAD DECIDED TO TAKE THIS STEP AS A UNILATERAL ACTION ON ITS PART FOR REASONS EXPLAINED IN THE LETTER.

4. IN RESPONSE TO OUR QUESTIONS, SOAMES EXPLAINED THAT HIS COMMUNICATION SUPERCEDES THE PREVIOUS DRAFT LARDINOIS-GREENWALD LETTER WHICH WOULD HAVE SET FORTH CERTAIN AGREED UNDERSTANDINGS. SOAMES SAID IT IS UP TO THE US TO DECIDE WHETHER IT WISHES TO RESPOND TO THE PRESENT COMMISSION LETTER AND WHETHER "IT WISHES TO APPLY ANY BALM FOR BAD FEELINGS." SOAMES AND GUNDELACH -- AS WELL AS SEVERAL OTHER COMMISSIONERS THE AMBASSADOR SAW SOCIALLY IMMEDIATELY THEREAFTER -- EMPHASIZED THE DIVISIVE NATURE OF THE COMMISSION'S DEBATE AND THE STRONG FEELINGS THE CHEESE COUNTERVAILING ISSUE HAS ENGENDERED GENERALLY. THEY STRESSED THE NECESSITY TO AVOID ANY ADDITIONAL US-EC COUNTERVAILING PROBLEMS IN THE INTEREST OF OUR OVERALL RELATIONS SINCE THERE IS "NO CHANCE" OF GETTING A COMMISSION MAJORITY FOR FURTHER EC ACTIONS OF THIS NATURE.

5. AMBASSADOR GREENWALD SAID HE WOULD IMMEDIATELY REPORT SOAMES' LETTER TO WASHINGTON. HE WOULD MEANWHILE RESERVE ANY REACTION EXCEPT TO EXPRESS HIS VIEW THAT THE COMMISSION HAD ACTED WISELY IN DECIDING TO SUSPEND THE RESTITUTIONS. USEC OFFICERS AND COMMISSION OFFICIALS WILL MEET EARLY APRIL 24 TO VERIFY THE ITEMS SET FORTH IN REFTEL B PARA 4 SO THAT WE CAN PROMPTLY INFORM WASHINGTON OF ANY DISCREPANCIES.

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FOLLOWING IS THE TEXT OF THE SOAMES LETTER TO AMBASSADOR GREENWALD:

BEGIN TEXT

"AS YOU KNOW IN RECENT YEARS THE COMMISSION OF THE EUROPEAN COMMUNITIES AND THE UNITED STATES ADMINISTRATION HAVE HELD MANY DISCUSSIONS ABOUT AGRICULTURAL AND WORLD FOOD

ISSUES IN A SPIRIT OF COOPERATION TO FIND SOLUTIONS TO PROBLEMS OF COMMON INTEREST. IN PARTICULAR, FOR THE GREATER PART OF A YEAR THERE HAVE BEEN CONTACTS IN THE MATTER OF POSSIBLE COUNTERVAILING DUTIES ON COMMUNITY CHEESE EXPORTS TO THE UNITED STATES.

"DURING THESE DISCUSSIONS THE COMMISSION HAS MADE PLAIN ITS VIEW THAT THE PAYMENT OF EXPORT REFUNDS ON CERTAIN OF ITS CHEESE EXPORTS TO THE UNITED STATES IN NO SENSE JUSTIFIES THE IMPOSITION OF COUNTERVAILING DUTIES BECAUSE COMMUNITY EXPORTS OF CHEESE TO THE UNITED STATES ARE NOT THE CAUSE OF THE DIFFICULTIES OF THE UNITED STATES DAIRY INDUSTRY, AND IT IS THEREFORE NOT POSSIBLE TO DEMONSTRATE THAT MATERIAL INJURY TO A DOMESTIC INDUSTRY HAS ARISEN.

"THE COMMISSION HAS MADE VERY CONSIDERABLE EFFORTS TO ASSIST THE UNITED STATES ADMINISTRATION IN THE HANDLING OF THIS ISSUE IN THE BELIEF THAT IT WOULD BE POSSIBLE TO REACH AN UNDERSTANDING ON THE BASIS OF THE DISCRETIONARY POWERS IN THE TRADE REFORM ACT. THUS THE COMMISSION HAS INTRODUCED AN OVERALL REDUCTION IN THE LEVEL OF ITS EXPORT REFUNDS, AND THE TEMPORARY SUSPENSION OF REFUNDS ON SEVERAL TYPES OF CHEESE TO WHICH THE UNITED STATES DAIRY INDUSTRY IS PARTICULARLY SENSITIVE.

" DESPITE THESE DECISIONS WE HAVE BEEN INFORMED THAT THE UNITED STATES WILL PROCEED TO APPLY COUNTERVAILING DUTIES TO ALL COMMUNITY EXPORTS OF CHEESE ON WHICH EXPORT REFUNDS ARE PAID.

"TO TRY TO AVOID THIS ISSUE LEADING TO A CONFRONTATION IN TRADE RELATIONS BETWEEN THE COMMUNITY AND THE UNITED STATES IN PRESENT WORLD CIRCUMSTANCES THE COMMISSION HAS DECIDED TEMPORARILY TO SUSPEND EXPORT REFUNDS ON EMMENTHAL AND GRUYERE. THE COMMISSION WISHES TO DRAW YOUR ATTENTION TO THE VERY CONSIDERABLE DISTANCE WHICH IT HAS GONE IN THIS AND OTHER MATTERS DURING THE LAST TWO YEARS, LIMITED OFFICIAL USE

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TO EXPRESS ITS REGRET AT THE ATTITUDE THAT THE UNITED STATES ADMINISTRATION HAS TAKEN ON THIS ISSUE, AND TO STATE ITS CONCERN ABOUT THE EFFECT THAT THIS ATTITUDE HAS ON OUR RELATIONS MORE GENERALLY."

END TEXT.GREENWALD

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